

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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March 7, 2002

Mr. Charlie Goff
Generations, Inc.
1330 Kinard Street
Newberry, South Carolina 29108

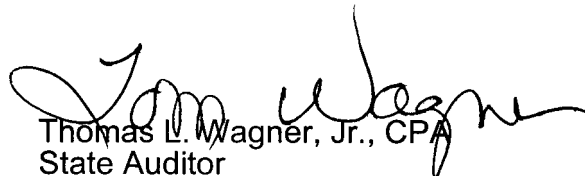
Re: AC# 3-JFH-J8 – J. F. Hawkins Nursing Home, Inc.

Dear Mr. Goff:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

J. F. HAWKINS NURSING HOME, INC.

NEWBERRY, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-JFH-J8**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 19, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with J. F. Hawkins Nursing Home, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

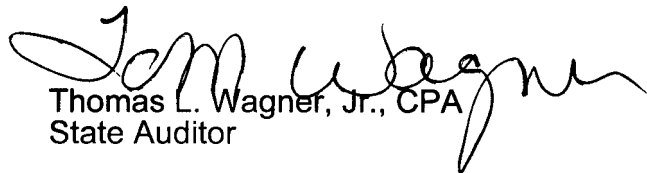
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by J. F. Hawkins Nursing Home, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and J. F. Hawkins Nursing Home, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
March 19, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

J. F. HAWKINS NURSING HOME, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-JFH-J8

| | 10/01/99- <u>09/30/00</u> |
|--------------------------------|------------------------------|
| Interim reimbursement rate (1) | \$98.82 |
| Adjusted reimbursement rate | <u>96.46</u> |
| Decrease in reimbursement rate | \$ <u><u>2.36</u></u> |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

J. F. HAWKINS NURSING HOME, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-JFH-J8

| | <u>Incentives</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|--|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | | \$46.00 | \$47.61 | |
| Dietary | | 12.81 | 10.24 | |
| Laundry/Housekeeping/Maint. | | <u>10.82</u> | <u>8.89</u> | |
| Subtotal | \$ <u>-</u> | 69.63 | 66.74 | \$66.74 |
| Administration & Med. Records | <u>\$1.34</u> | <u>10.05</u> | <u>11.39</u> | <u>10.05</u> |
| Subtotal | | 79.68 | <u>\$78.13</u> | 76.79 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 2.99 | | 2.99 |
| Special Services | | - | | - |
| Medical Supplies & Oxygen | | 1.65 | | 1.65 |
| Taxes and Insurance | | .57 | | .57 |
| Legal Fees | | <u>.02</u> | | <u>.02</u> |
| TOTAL | | <u>\$84.91</u> | | 82.02 |
| Inflation Factor (3.00%) | | | | 2.46 |
| Cost of Capital | | | | 8.26 |
| Cost of Capital Limitation | | | | - |
| Profit Incentive (Max. 3.5% of Allowable Cost) | | | | 1.34 |
| Cost Incentive | | | | - |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | - |
| CNA Add-On | | | | .75 |
| Nurse Aide Staffing Add-On | | | | <u>1.63</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$96.46</u> |

J. F. HAWKINS NURSING HOME, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-JFH-J8

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | Adjusted <u>Totals</u> |
|-------------------------------------|--|--------------------------------|--------------------------|---------------------------|
| General Services | \$1,645,499 | \$ - | \$ - | \$1,645,499 |
| Dietary | 458,234 | - | - | 458,234 |
| Laundry | 89,451 | - | - | 89,451 |
| Housekeeping | 180,977 | - | - | 180,977 |
| Maintenance | 116,682 | - | - | 116,682 |
| Administration & Medical Records | 369,071 | - | 9,727 (2) | 359,344 |
| Utilities | 107,058 | - | - | 107,058 |
| Special Services | 41,229 | - | 41,229 (4) | - |
| Medical Supplies & Oxygen | 92,731 | - | 10,897 (3) 22,746 (4) | 59,088 |
| Taxes and Insurance | 20,247 | - | - | 20,247 |
| Legal Fees | 884 | - | - - | 884 |
| Cost of Capital | 302,597 | 3,094 (5) <u>22,796 (6)</u> | 33,006 (1) <u>-</u> | 295,481 |
| Subtotal | 3,424,660 | 25,890 | 117,605 | 3,332,945 |
| Ancillary | 13,033 | - | - | 13,033 |

J. F. HAWKINS NURSING HOME, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-JFH-J8

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | Adjusted <u>Totals</u> |
|-----------------------------|--|--|-------------------------|---------------------------|
| Non-Allowable | 1,257,091 | 33,006 (1) 9,727 (2) 10,897 (3) <u>63,975 (4)</u> | 3,094 (5) 22,796 (6) | 1,348,806 |
| Total Operating Expenses | <u>\$4,694,784</u> | <u>\$143,495</u> | <u>\$143,495</u> | <u>\$4,694,784</u> |
| Total Patient Days | <u>35,768</u> | <u>-</u> | <u>-</u> | <u>35,768</u> |
| Total Beds | <u>98</u> | | | |

J. F. HAWKINS NURSING HOME, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-JFH-J8

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|--------------|---------------|
| 1 | Nonallowable | \$ 33,006 | |
| | Other Equity | 7,761,380 | |
| | Accumulated Depreciation | 303,726 | |
| | Fixed Assets | | \$8,065,106 |
| | Cost of Capital | | 33,006 |
| | To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D | | |
| 2 | Nonallowable | 9,727 | |
| | Administration | | 9,727 |
| | To disallow interest expense HIM-15-1, Section 202.2 State Plan, Attachment 4.19D | | |
| 3 | Nonallowable | 10,897 | |
| | Medical Supplies & Oxygen | | 10,897 |
| | To reclassify expense State Plan, Attachment 4.19D | | |
| 4 | Nonallowable | 63,975 | |
| | Medical Supplies & Oxygen | | 22,746 |
| | Therapy | | 41,229 |
| | To adjust Special (ancillary) Services State Plan, Attachment 4.19D | | |
| 5 | Accumulated Depreciation | 6,253 | |
| | Cost of Capital | 3,094 | |
| | Other Equity | | 6,253 |
| | Nonallowable | | 3,094 |
| | To adjust to reflect Cost of Capital policy State Plan, Attachment 4.19D | | |

J. F. HAWKINS NURSING HOME, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-JFH-J8

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|--------------------|--------------------|
| 6 | Cost of Capital Nonallowable | 22,796 | 22,796 |
| | To adjust capital return State Plan, Attachment 4.19D | | |
| | | <hr/> | <hr/> |
| | TOTAL ADJUSTMENTS | <u>\$8,214,854</u> | <u>\$8,214,854</u> |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

J. F. HAWKINS NURSING HOME, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-JFH-J8

| | <u>Old Beds</u> | <u>New Beds</u> | |
|--|-----------------------|-----------------------|-----------------------|
| Original Asset Cost (Per Bed) | \$ 15,618 | \$ 15,618 | |
| Inflation Adjustment | <u>2.2493</u> | <u>2.2493</u> | |
| Deemed Asset Value (Per Bed) | 35,130 | 35,130 | |
| Number of Beds | <u>78</u> | <u>20</u> | |
| Deemed Asset Value | 2,740,140 | 702,600 | |
| Improvements Since 1981 | 987,287 | 1,563 | |
| Accumulated Depreciation at 9/30/98 | (1,444,761) | <u>(51,330)</u> | |
| Deemed Depreciated Value | 2,282,666 | 652,833 | |
| Market Rate of Return | <u>.063</u> | <u>.063</u> | |
| Total Annual Return | 143,808 | 41,128 | |
| Return Applicable to Non-Reimbursable Cost Centers | (6,282) | (488) | |
| Allocation of Interest to Non-Reimbursable Cost Centers | <u>3,492</u> | <u>949</u> | |
| Allowable Annual Return | 141,018 | 41,589 | |
| Depreciation Expense | 96,084 | 30,060 | |
| Amortization Expense | - | 1,863 | |
| Capital Related Income Offsets | - | - | |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers | <u>(11,899)</u> | <u>(3,234)</u> | <u>Total</u> |
| Allowable Cost of Capital Expense | 225,203 | 70,278 | \$295,481 |
| Total Patient Days (Actual Days) | <u>28,468</u> | <u>7,300</u> | <u>35,768</u> |
| Cost of Capital Per Diem | \$ <u><u>7.91</u></u> | \$ <u><u>9.63</u></u> | \$ <u><u>8.26</u></u> |

J. F. HAWKINS NURSING HOME, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-JFH-J8

| | <u>Old Beds</u> | <u>New Beds</u> |
|--|-----------------|-----------------|
| 6/30/89 Cost of Capital and Return on Equity | | |
| Capital Per Diem Reimbursement | \$4.10 | \$ N/A |
| Adjustment for Maximum Increase | <u>3.99</u> | <u>N/A</u> |
| Maximum Cost of Capital Per Diem | \$ <u>8.09</u> | \$ <u>9.63</u> |
| Reimbursable Cost of Capital Per Diem | | \$8.26 |
| Cost of Capital Per Diem | | <u>8.26</u> |
| Cost of Capital Per Diem Limitation | | \$ <u>-</u> |

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